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CABRI sector dialogue on value for money in agriculture spending

Tanzania case study

Agricultural Sector Development Programme: Are we spending on identified priorities?

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2014

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Acronyms and abbreviations

ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
ASLM	agricultural sector lead ministries
CABRI	Collaborative Africa Budget Reform Initiative
CSO	civil society organisation
DADP	district agricultural development plan
DAP	district agriculture plan
ESRF	Economic and Social Research Foundation
GDP	gross domestic product
LGA	local government authority
MoF	Ministry of Finance
NAIVS	National Agricultural Inputs Voucher Scheme
NGO	non-governmental organisation
O&OD	opportunities and obstacles for development

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1. Introduction

The Agricultural Sector Development Programme (ASDP) is Tanzania's main programme to oversee the sector's development and transformation. The ASDP has two objectives: to improve farmers' access to and use of agricultural knowledge, technologies, marketing systems and infrastructure, all of which contribute to higher productivity, profitability and farm incomes; and to promote private investment on the basis of an improved regulatory and policy environment. The priority areas for investment in the agricultural sector are presented in Table 1.

Currently, the government is in the process of formulating ASDP II. This is a critical opportunity to review past performance and to assess whether funds were spent in accordance with the identified priorities. The government has been using fiscal policy for the development and transformation of the agricultural sector. The challenge of the fiscal policy is in the efficiency of agricultural sector planning, budgeting and execution in order to unleash the underutilised potential of the sector. This becomes even more challenging because implementation of the programmes is no longer centralised. Under the ASDP, districts have autonomy to plan for their agricultural development and expenditures, and are accountable to the central government and surrounding community.

This study combines interviews and literature reviews to present a perspective on agricultural budgeting issues in Tanzania. Studies on agriculture financing and expenditures were widely consulted in the process to obtain evidence on planning, budgeting and spending for agricultural development. The Agricultural Sector Development Strategy (ASDS) and ASDP were the principal documents for the study. The review also includes documents relating to policies in agriculture, co-operatives, irrigation, land and long-term development plans. A detailed analysis of expenditures at district level was carried out by reviewing previous studies conducted by NGOs. This was done with the purpose of gathering evidence on budget planning and implementation at local government authority (LGA) and district level.

This case study was prepared for the Agriculture Sector

Table 1: Agricultural investment priority areas

Investment priority area	Benefits
Infrastructure (feeder roads, markets, electrification, storage facilities, etc.) and agro-processing	Improved distribution of inputs and lower costs of inputs Improved transport of agricultural products and lower marketing costs Attraction of private investment in agro-processing and other non-farm activities Increased market outlets for agricultural products, increased producer prices, increased farmers' income
Irrigation	Increased production of agricultural products, more specifically maize and rice Increased and stable income for farmers
Mechanisation	Increased labour productivity and income for farmers Farmers' labour available for other non-farm income-generating activities
Research and development	Increased labour and land productivity Increased farmers' income
Farm inputs	Increased labour and land productivity Increased farmers' income
Renewable natural resources	Improved adaptation to climate change Improved environmental management, including soil fertility

Source: ESRF (2010)

Dialogue series of the Collaborative Africa Budget Reform Initiative (CABRI). The purpose of these dialogues is to create a platform for peer learning in agricultural budgeting and financing.

1.1 Problem statement

Agricultural sector development and transformation in Tanzania has been the central objective of economic development since independence. The sector is the backbone of the economy and, as such, is the prime sector for structural economic changes. The majority of Tanzanians live in rural areas, and agriculture is the main economic activity. Since independence, each president has created a grand programme and slogans for modernising the agricultural sector. These programmes include *Kilimo Kwanza*, meaning 'Agriculture First', the Tanzania Agriculture and Food Security Investment Plan (TAFSIP) under the Comprehensive Africa Agriculture Development Programme (CAADP) and, most recently, the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), which has been established to mobilise private and government investments in the agricultural sector through public-private partnerships and the Monitoring and Delivery Mechanism under the Presidential Delivery Bureau.

Despite these efforts, the agricultural sector is still growing at only 4 per cent, below the 6 per cent that was projected as being sufficient to raise rural household incomes and facilitate their mobility out of poverty. The majority of farmers continue to use hand hoes and few improved inputs. Rainfall is the major source of water for farming, exposing farmers and sector performance to the vagaries of weather and climate change. The current status raises important basic questions as to whether spending is actually in line with key priorities, and whether spending achieves value for money.

1.2 Objectives

By focussing on Tanzania's ASDP, which has been operational since 2005, this case study allows budget and policy officials to explore the following questions:

- Does expenditure align with identified priorities?
- Is the ASDP budgetary process efficient and effective?
- Does spending result in better agricultural outcomes (value for money)?
- How can the government of Tanzania ensure that spending is effective and efficient?
- What tools and analysis are needed?

The case study also incorporates specific 'discussion questions' in text boxes. The questions are in line with the broader questions specified above and assist in facilitating group discussions systematically at the CABRI Agriculture Sector Dialogue.

2. Agricultural sector overview

About 75 per cent of the Tanzanian population is employed in the agricultural sector, which is dominated by small-scale subsistence farmers operating on an average of 0.2 – 2 hectares per famer, as well as traditional agro-pastoralists and fishers. Nearly 80 per cent (35 million hectares) of the arable land is used by smallholders, with only about 1.5 million hectares for medium- and large-scale farming. Only 1.5 per cent of the suitable irrigation land (29.4 million hectares) is used for irrigation farming and 86 per cent of it is owned by smallholders, while the rest belongs to large-scale farmers. Agriculture in Tanzania is heavily reliant on rainfall (NBS 2012; MAFC 2011).

The main food crops produced are maize, beans, groundnuts, cassava, rice, sorghum and sweet potatoes, while the main cash crops are tobacco, coffee, cotton, cashew nuts, tea, sugarcane and sisal. Cashew nuts, rice, tobacco and cotton are produced mainly by smallholders. Large- and medium-scale agricultural production is concentrated on cash crops such as coffee, sugar, tea and sisal. Keeping livestock is also an important economic activity and source of food. Despite Tanzania having more than 18 million head of livestock, the contribution of this subsector to GDP is only 4.6 per cent. It is important to note that agricultural sector growth in the last decade was modest, at 4 per cent, which is low compared to the industrial and services sectors (see Figure 1). Within agriculture, the crops subsector contributes more than livestock, diary and fisheries. Agriculture remains the single largest sector contributor to GDP, despite high growth rates in the services and industrial sectors.

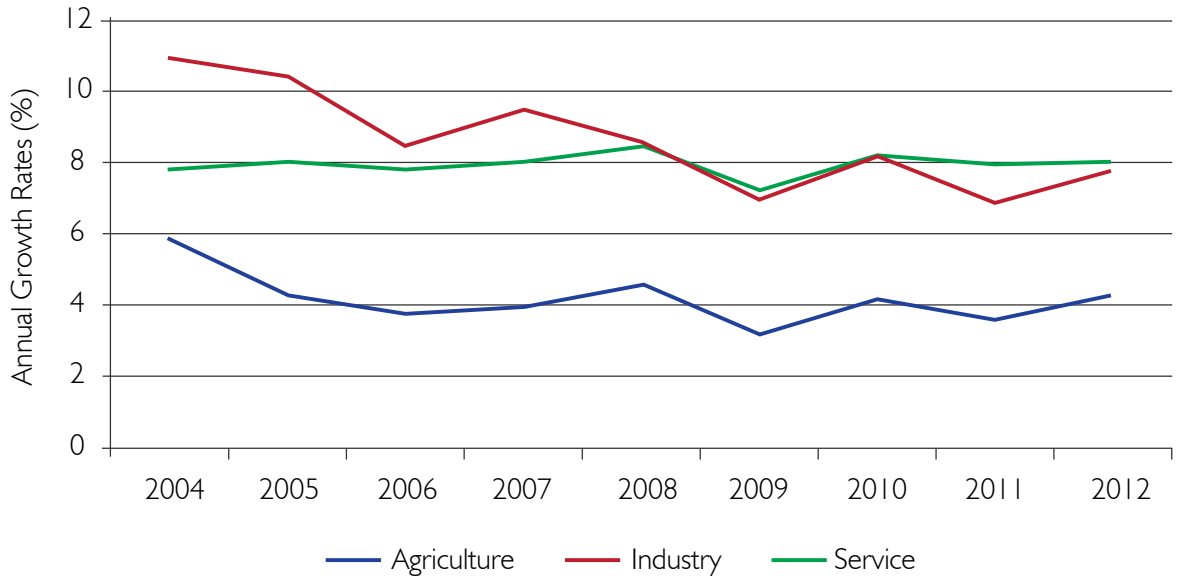

Figure 1: Annual sectoral aggregate growth

Source: MoF (2012)

Figure 2 shows that the average annual growth rate of the agricultural sector for the period 2006 – 2012 (aggregate), despite fluctuation, was around 4 per cent, which is far below the ASDP target of 6 per cent. In fact, prior to the commencement of the ASDP in 2004, the agricultural growth rate was 5.9 per cent higher than the current level.

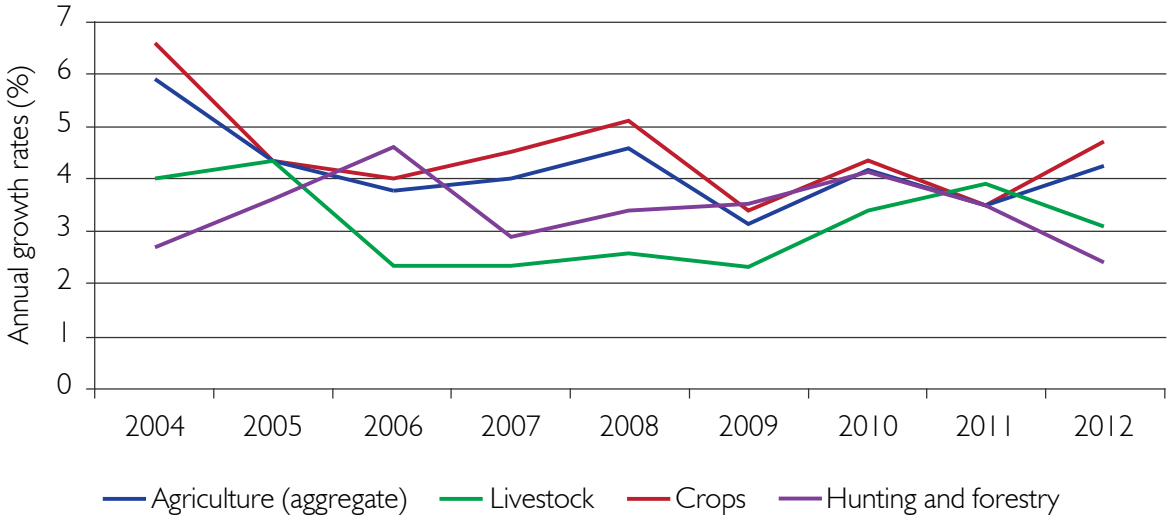

Figure 2: Agricultural subsector annual growth rates

Source: MoF (2012)

Figure 3 shows budgetary allocations and actual expenditure in the agricultural sector for the financial years 2006/07 – 2012/13. Except for 2010/11, the budgeted amounts exceed the Maputo Declaration on Agriculture and Food Security target. However, Tanzania met the Maputo target in terms of actual expenditures only for 2006/07 – 2008/09.

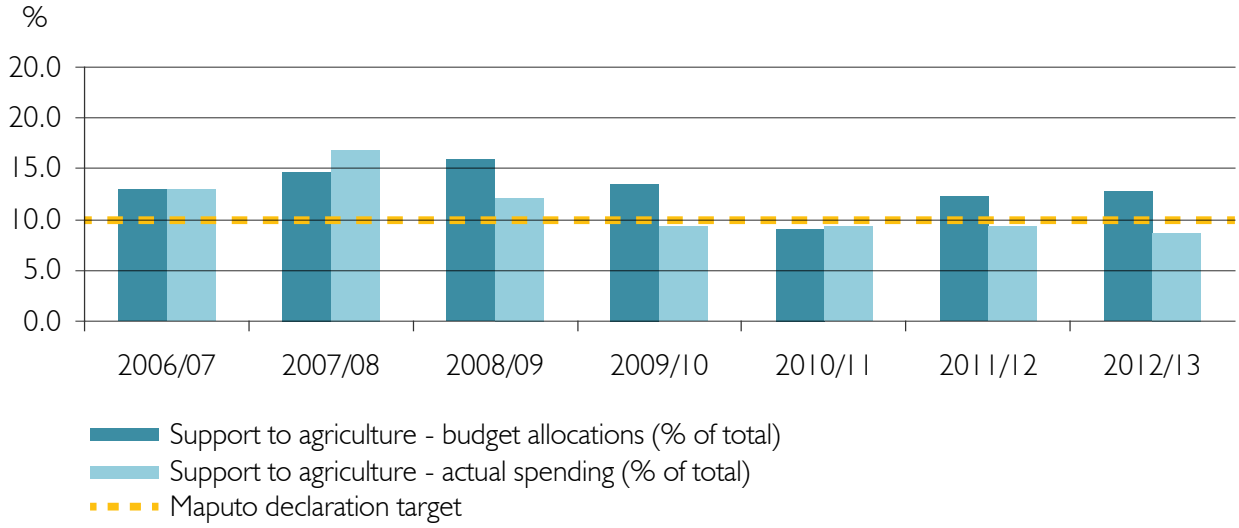

Figure 3: Agricultural sector financing in Tanzania

Source: MoF (2006/07–2012/13)

Arguably, the ASDP has contributed towards stabilising food security in the country, as evidenced by an increase in production area and volume over time, facilitated by the National Agricultural Inputs Voucher Scheme (NAIVS). Figure 4 indicates progressive improvement in the supply of food, as measured by kcal/capita/day and dietary adequacy in percentages. However, because of the decreases in supply of food that occurred between 2007 and 2011 as a result of the global food price crisis, dietary adequacy was met by imports from Asia and elsewhere. The government provided tax waivers to larger importers to satisfy local demand.

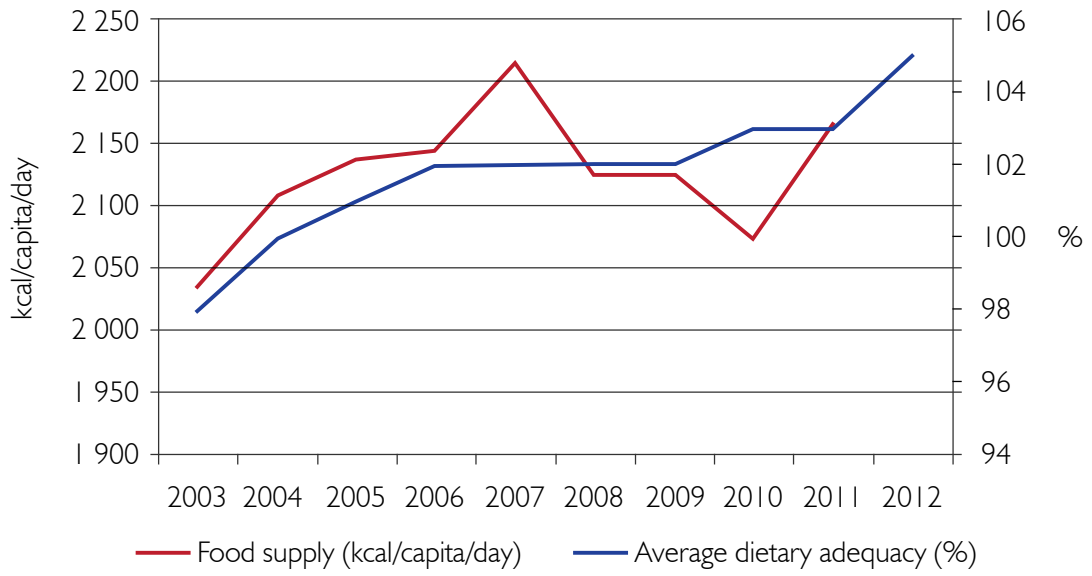

Figure 4: Trends in food security

Source: FAOSTAT

Discussion question

Do the data convincingly tell us that the ASDP has been successful? Why or why not? How would you determine the success of the programme?

3. Agricultural budget planning process

Normally, Agricultural Sector Lead Ministries (ASLMs) spend about 25 per cent of the ASDP implementation budget, while the largest share of ASDP funds (about 75 per cent) is spent at the LGA level through district agricultural plans (DAPs) (Policy Forum 2012). ASLMs' expenditures are concerned with agricultural inputs, which include fertiliser and pesticide subsidies, large irrigation scheme development, regulation and co-ordination, as well as quality assurance. Thus, district councils use funds to prepare and implement district agricultural development plans (DADPs). Financing at the local level complies with a fiscal decentralisation policy in terms of which activities are financed on the basis of a block grant financing system.

Of the funds received at the LGA level, at least 80 – 85 per cent is expected to support community projects through the District Agricultural Development Grant, the Agricultural Capacity Building Grant and the Agricultural Extension Block Grant. Traditionally, interventions through the development grants, which should be used only for investment, receive over 65 per cent of the total, while the remaining 35 per cent is shared between capacity-building grants and extension grants.

The ASDP works through a sector-wide approach, involving the Ministry of Agriculture, Food Security and Co-operatives, the Ministry of Industry and Trade, the Ministry of Livestock Development and Fisheries, and the Prime Minister's Office, Regional Administration and Local Government. The ASDP is implemented largely by LGAs through DADPs as an integral part of the district development plans. The decentralisation process has transferred more power and autonomy to LGAs to plan for resource mobilisation and expenditures for the sector.

At village level, agricultural plans are developed using O&OD (opportunities and obstacles for development) through a joint meeting of village members and a ward facilitation team. O&OD helps villagers and the facilitation team to come up with key priority areas for intervention within the three years of the medium-term expenditure framework. Stakeholders are involved in different ways from one LGA to another at district, ward and village level. There are some indications that civil society organisations (CSOs), including producers' organisations, take part in planning but not at full-scale. On a regular basis, CSOs are specially invited to a consultative meeting at district level during the compilation stage (EAFF 2011).

Development plans from villages and wards are tabled at district level before being submitted to the regional level. In all of these processes, priority areas and working plans are refined and, at regional level, budgets are harmonised. This is done to make sure that the regional government does not exceed the limit specified by the Ministry of Finance (MoF). It is at this stage that most of the plans/activities emanating from the village are either dropped or scaled down. Here, the focus on the limit raises the risk of a village plan being distorted by regional officers. A bottom-up approach can be watered down technically and subtly by the MoF's regional budget limit.

Discussion question

How can the budget process be improved to incorporate budget ceilings from the top while ensuring that priorities from the bottom are retained?

4. Agricultural spending efficiency

Figure 5 shows that since 2006, the government's priority has been input subsidies. Budget allocation for inputs has been sustained for more than five years, although yields have not increased substantially and the prospect of farmers, who continue to buy the inputs after the programme has been phased out, is uncertain.

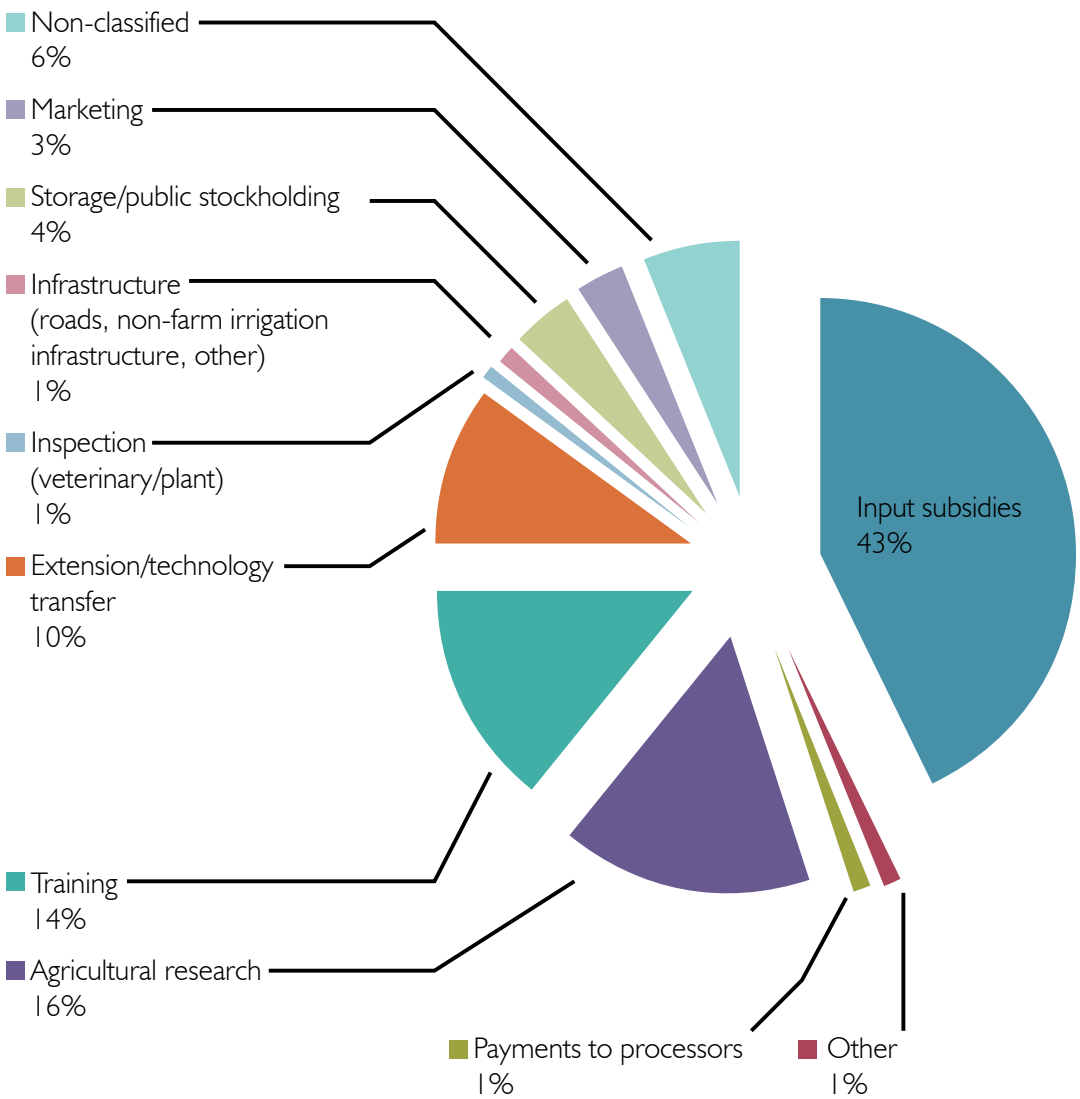

Figure 5: Spending on agricultural investments, 2006 – 2013

Source: MoF (2006/07–2012/13)

The recent expenditure review of the NAIVS indicates that 43 per cent of the beneficiaries would continue to buy inputs when the programme ends. However, farmers complained about delays in the delivery of inputs, which often arrive at the end of the season (World Bank 2014).

Discussion question

Should the government continue to prioritise input subsidies over other activities, including irrigation and processing?

Figure 6 provides a breakdown of the input subsidies. As expected, rice and maize have a large share of the expenditure due to their importance in food and income generation to more than 6 million producers in the country. However, the national average yield of rice and maize is still below 2 ton/ha compared to countries in East Asia at 18 ton/ha. In addition, despite the country's 18 million head of livestock, the budget share to livestock development is only 9 per cent.

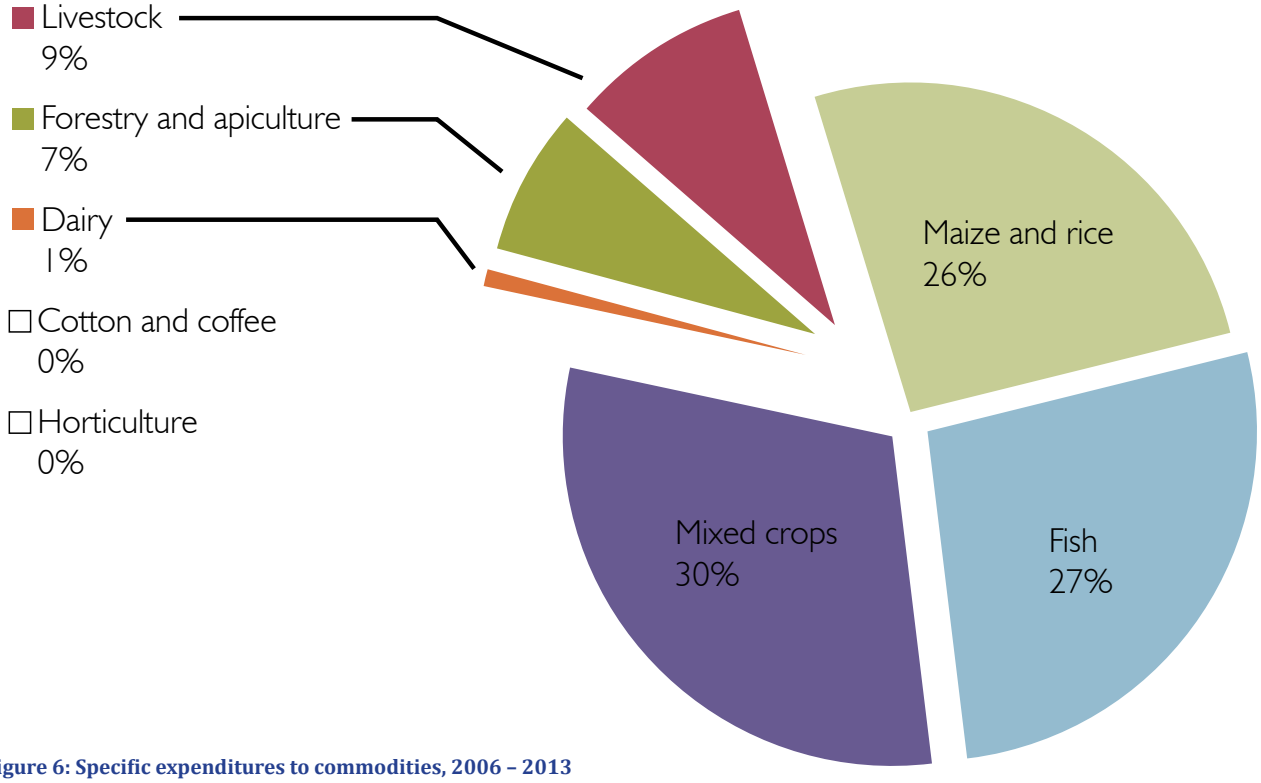

Figure 6: Specific expenditures to commodities, 2006 – 2013

Source: MoF (2006/07–2012/13)

Discussion question

Should the government continue to prioritise staple crops over other farming enterprises e.g.cash crops, livestock etc? What are the pros and cons?

The major problems farmers face are access to markets (and proper marketing structures for concluding transactions) and limited investment in irrigation farming. However, spending in support of this critical infrastructure is very low. In 2005, the government implemented the Agricultural Sector Marketing Development Programme prior to an improvement in production. The input subsidy programme

was launched in 2008. This is why in the past five years' inputs have received a substantial share of the budget. However, the sequencing of the programmes was not strategic and discloses a capacity gap in the prioritising of a strategic project.

Production of rice and maize has increased as a result of continuous government support for the input subsidy programme. As production increases, however, farmers face huge post-harvest losses due to lack of adequate storage facilities. Private facilities are expensive and unaffordable to many farmers. They are forced to sell surplus at relatively low prices and, in some years (such as 2008 – 2012), they are confronted with an export ban, which is a policy measure counter to input subsidies. In the long-run, value for money in this intervention is reduced because of the post-harvest losses incurred by farmers.

Furthermore, budget transfers to support processing in Tanzania are still very low. The government's rhetoric focusses on value addition and crop diversification as part of efforts to transform the sector. Indeed, each district has been advised to promote one commercial crop for value addition. From 2006 to 2013, however, the government budget allocation to processors to encourage value addition was a mere 1 per cent.

5. Conclusion

The agricultural inputs subsidy programme may have contributed to an overall increase in food crop production, but productivity of the targeted crops (maize and rice) is still very low compared to most East African countries. Several challenges face the ASDP, beyond fiscal issues, which have influenced poor performance and outcomes. This is particularly so with regard to ASDP sub-component programmes, such as capacity development of LGAs, agricultural input subsidies through the NAIVS, irrigation developments, infrastructure, markets and ad hoc trade policy measures from central government. The challenges may be summarised as follows:

- political interference, for example, NAIVS was politically expanded to cover drier regions where returns were much lower (the original plan was to focus on high-yield regions, in order to produce a surplus for the country);
- beneficiaries of NAIVS consider the subsidy to be an income transfer to reduce production costs, instead of an inducement to encourage the testing and adoption of new technology;
- many farmers have received input vouchers out of season;
- some of the input vouchers have been fraudulently redeemed and dumped on the market;
- the world food price crisis in 2008, followed by an export ban, affected many producers who were relying on export markets;
- a shortage of qualified irrigation engineers hindered the construction of irrigation schemes;
- limited technical skills at LGAs in planning through O&OD (most have created 'wish lists' instead of strategically focussed planning in project development);
- unpredictable flows of donor funds to ASDP projects;
- over-reliance on rain-fed agriculture and low levels of technology adoption; and
- limited involvement of the private sector in agriculture, and an absence of private sector services in rural areas.

Discussion question

Do other countries also experience these technical inefficiencies? What is being done to overcome them?

Moreover, the focus is largely on inputs, with little consideration of post-harvest management, value addition, improvement of rural infrastructure, and irrigation development and processing. With regard to budgeting and planning, each LGA has its own priority based on O&OD plans. This method of planning leads to disarray of sequential and strategic development because most interventions are of short duration and aimed at achieving immediate results. It is important to explore the question of sectoral co-ordination in addition to the broader questions raised above.

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